

Name _____

Cost Chronicles: The Impact of Production Costs on Supply

Open-Ended Response Answer Key

1. If the price of sugar doubled for my bakery, I would have to consider several options. I might absorb some of the cost increase to keep my prices competitive and avoid scaring away customers. Alternatively, I could look for ways to reduce sugar usage in recipes or explore alternative sweeteners to lower production costs. My decision would depend on factors like customer loyalty, the competitive landscape, and the overall impact on my business's profitability.
2. A real-life example of changes in production costs affecting prices and consumer behavior is the cost of gasoline. When the price of oil, a key raw material for gasoline production, rises significantly, it often leads to higher gasoline prices at the pump. Consumers may respond by driving less, using public transportation, or switching to more fuel-efficient vehicles to manage the increased cost.
3. It's important for businesses to carefully consider how they respond to changes in production costs, especially when it comes to raising prices for consumers, because price increases can affect consumer purchasing decisions and brand loyalty. Sudden or excessive price hikes may drive customers away and damage the reputation of the business. Careful pricing strategies can help businesses maintain customer trust while managing their own costs and profitability.

